uMngeni Municipality

Annual Financial Statements
for the year ended 30 June 2016

General Information

Legal form of entity	UMNGENI LOCAL MUNICIPALITY
Mayoral committee	
Mayor	Mrs MP Myeni
Councillors	Cllr TP Mchunu
	Cllr SR Majozi
	Cllr PA Passmoor
	Cllr STJ Ndlovu
	Cllr MJ Gruenberg
	Cllr SK Pillay
	Cllr GT Dlamini
	Cllr SD Nkuna
	Cllr JE Holmes
	Cllr TG Nxele
	Cllr NN Mlotshwa
	Cllr BA Zuma
	Cllr HP Ndlela
	Cllr TA Duggan
	Cllr FT Cele
	Cllr CRW Millar
	Cllr NJ Lewis
	Cllr FG Mthembu
	Cllr JM Zondi
	Cllr LP Phikwane
	Cllr JA Mkhasibe
	Cllr SM Ndlovu
Grading of local authority	3
Acting Accounting Officer	Mr B Mpanza
Chief Finance Officer	Mr SZ Gwala
Registered office	Corner Dicks and Somme Streets Howick 3290
Postal address	P O Box 5 Howick 3290
Banker	ABSA Bank
Auditor	Auditor General

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these are:

Bi weekly meetings in the form of the Interim Finance Committee, to plan and approve only essential expenditure for the forthcoming weeks and to ensure that the unspent conditional grants are moving to a position of being cash backed.
Two other committees have also being formed after Provincial Treasury provided support to help the Municipality recover from the cash flow challenges it faces. The Credit control and Valuation sub-committees meet monthly to tackle revenue enhancement issues by addressing the issue of outstanding debtors and valuation queries respectively. These committees have already achieved success by requesting all stakeholders involved in revenue enhancement to account monthly and provide direction on how to maximise revenue and reduce the outstanding debtors.

Council and the Interim Finance committee is committed to turning the situation around and has frozen all vacant posts in order to curb expenditure, except critical posts or those funded by the conditional grants. There is also an action plan to further reduce expenditure and implement cost-cutting measures to aid financial recovery. Council still has to adopt the plan.

On the technical side, excess electricity losses have been identified and corrective action is being taken to remedy the situation by the Development of Consumer loss Analysis programme (CLA). This programme was specifically written to identify the electricity losses due to technical issues, theft of electricity, illegal connections, and metered installations and correct the electricity billing cycle.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit. The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements..

The annual financial statements set out on page 7-60 which have been prepared on the going concern basis, were approved by the Acting Accounting Officer on 31 August 2016 and were signed on its behalf by:

Mr B Mpanza
Acting Municipal Manager

Approval of Annual Financial Statements

I am responsible for the preparation of these annual financial statements, which are set out on page 7-60 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 30 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Mr B Mpanza
Acting Accounitng Officer

Statement of Financial Position as at 30 June 2016

	Note(s)	2016 R	2015 R
Assets			
Current Assets			
Investments	8	33 038 278	38 548 450
Other receivables	9	3 069 381	2 774 926
Receivables from non-exchange transactions	11	10 238 479	8 269 258
VAT receivable	12	6 660 475	5 565 441
Consumer debtors	10	45 655 936	31 353 805
Cash and cash equivalents	13	6 796 232	8 103 231
		105 458 781	**94 615 111**
Non-Current Assets			
Investment property	3	5 056 987	5 323 419
Property, plant and equipment	4	765 379 284	788 876 392
Intangible assets	5	129 499	32 382
Heritage assets	6	5 392 615	5 392 615
		775 958 385	**799 624 808**
Total Assets		**881 417 166**	**894 239 919**
Liabilities			
Current Liabilities			
Annuity loans	16	3 386 736	3 279 327
Operating lease liability		10 340	12 065
Trade and other payables from exchange transactions	20	23 868 974	18 942 766
Consumer deposits	21	2 295 977	2 198 071
Employee benefit obligation	7	1 316 000	1 151 000
Unspent conditional grants and receipts	18	11 078 439	22 223 372
Finance lease obligation	17	965 458	971 769
		42 921 924	**48 778 370**
Non-Current Liabilities			
Annuity loans	16	26 235 723	29 022 019
Finance lease obligation	17	385 760	430 666
Employee benefit obligation	7	25 555 000	24 206 000
Provisions	19	30 094 097	24 742 481
		82 270 580	**78 401 166**
Total Liabilities		**125 192 504**	**127 179 536**
Net Assets		**756 224 662**	**767 060 383**
Net Assets			
Reserves			
Revaluation reserve	14	127 470 628	127 470 628
Housing Operating Account	15	15 108 143	15 108 143
Accumulated surplus		613 645 891	624 481 612
		756 224 662	767 060 383
Non-controlling interest		-	-
Total Net Assets		**756 224 662**	**767 060 383**

Statement of Financial Performance

	Note(s)	2016 R	2015 R
Revenue			
Service charges	24	62 487 450	57 767 738
Rental of facilities and equipment		700 857	843 849
Licences and permits		3 206 426	2 655 121
Other income	26	3 703 142	4 900 844
Provisions for bad debt adjustment		-	4 764 421
Interest revenue	32	5 348 636	4 396 054
Property rates	23	154 859 936	119 499 372
Property rates - penalties imposed and collection charges		7 343 344	6 596 240
Government grants and subsidies	25	71 131 777	102 976 662
Fines, Penalties and Forfeits		9 100 750	21 641 800
Total revenue		**317 882 318**	**326 042 101**
Expenditure			
Employee related costs	29	(87 436 519)	(83 397 332)
Remuneration of councillors	30	(7 236 967)	(6 119 393)
Depreciation and amortisation	33	(42 804 584)	(41 824 544)
Finance costs	34	(3 441 913)	(4 302 784)
Debt Impairment	31	(25 990 564)	(22 032 800)
Collection costs		(885 333)	(721 417)
Repairs and maintenance		(21 867 782)	(12 523 508)
Bulk purchases		(83 791 886)	(72 285 938)
Contracted services		(13 468 960)	(11 226 036)
Grant expenditure	28	(8 787 772)	(7 162 023)
General expenses	27	(44 691 842)	(37 898 536)
Total expenditure		**(340 404 122)**	**(299 494 311)**
Operating (deficit) surplus		**(22 521 804)**	**26 547 790**
(Deficit) surplus for the year		**(22 521 804)**	**26 547 790**

Statement of Changes in Net Assets

	Revaluation reserve	Housing operating account	Total reserves	Accumulated surplus	Total net assets
	R	R	R	R	R
Balance at 01 July 2014	**127 470 628**	**15 108 143**	**142 578 771**	**597 933 822**	**740 512 593**
Changes in net assets					
Deficit for the year restated	-	-	-	26 547 790	26 547 790
Total changes	-	-	-	26 547 790	26 547 790
Balance at 01 July 2015	**127 470 628**	**15 108 143**	**142 578 771**	**624 481 613**	**767 060 384**
Movement in Accumulated Surplus	-	-	-	11 686 082	11 686 082
Net income recognised directly in net assets	-	-	-	11 686 082	11 686 082
Deficit for the year	-	-	-	(22 521 804)	(22 521 804)
Total recognised income and expenses for the year	-	-	-	(10 835 722)	(10 835 722)
	-	-	-	(10 835 722)	(10 835 722)
Balance at 30 June 2016	127 470 628	15 108 143	142 578 771	613 645 891	756 224 662
Note(s)	14	15			

Cash Flow Statement

	Note(s)	2016 R	2015 R
Cash flows from operating activities			
Receipts			
Sale of goods and services (rates and electricity)		214 437 101	201 370 293
Grants		71 131 777	102 976 662
Interest revenue		5 348 636	4 396 054
Other receipts		7 610 425	10 242 919
Fines		3 945 852	7 056 172
		302 473 791	326 042 100
Payments			
Employee costs		(94 673 486)	(89 516 725)
Suppliers		(190 870 849)	(167 340 573)
Finance costs		(3 441 913)	(3 642 564)
Taxes on surpluses		-	(705 397)
		(288 986 248)	(261 205 259)
Net cash flows from operating activities	38	**13 487 543**	**64 836 841**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(18 912 582)	(54 135 192)
Purchase of other intangible assets	5	(128 455)	(43 549)
(Increase)/decrease in investments		5 510 172	(8 750 458)
Net cash flows from investing activities		**(13 530 865)**	**(62 929 199)**
Cash flows from financing activities			
Decrease in borrowings		(2 678 887)	(2 559 664)
Movement in other liability 1		-	(33 453)
Movement in consumer deposits		97 906	(78 725)
Increase in finance lease liability		1 317 304	148 063
Net cash flows from financing activities		**(1 263 677)**	**(2 480 230)**
Net increase/(decrease) in cash and cash equivalents		**(1 306 999)**	**(572 588)**
Cash and cash equivalents at the beginning of the year		8 103 231	8 675 819
Cash and cash equivalents at the end of the year	13	**6 796 232**	**8 103 231**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget R	Adjustments R	Final Budget R	Actual amounts on comparable basis R	Difference between final budget and actual R	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges- electricity	68 177 158	3 250 189	**71 427 347**	56 672 222	**(14 755 125)**	49.1
Service charges- refuse	5 232 882	(61 367)	**5 171 515**	5 815 228	**643 713**	
Rental of facilities and equipment	675 021	(1 998)	**673 023**	700 857	**27 834**	
Interest received (outstanding debtors)	1 838 496	-	**1 838 496**	1 714 903	**(123 593)**	
Licences and permits	2 425 491	800 999	**3 226 490**	3 206 426	**(20 064)**	
Other income	9 169 458	(1 572 362)	**7 597 096**	3 703 142	**(3 893 954)**	49.2
Interest received - investment	1 512 612	1 981 461	**3 494 073**	5 348 636	**1 854 563**	49.3
Total revenue from exchange transactions	**89 031 118**	**4 396 922**	**93 428 040**	**77 161 414**	**(16 266 626)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	141 136 471	2 833 206	**143 969 677**	154 859 936	**10 890 259**	49.4
Property rates - penalties imposed	6 242 663	-	**6 242 663**	7 343 344	**1 100 681**	49.5
Transfer revenue						
Government grants & subsidies	78 675 000	216 000	**78 891 000**	71 131 777	**(7 759 223)**	49.6
Transfers recognised - trading	30 371 635	(7 936 449)	**22 435 186**	9 100 750	**(13 334 436)**	49.7
Total revenue from non-exchange transactions	**256 425 769**	**(4 887 243)**	**251 538 526**	**242 435 807**	**(9 102 719)**	
Total revenue	**345 456 887**	**(490 321)**	**344 966 566**	**319 597 221**	**(25 369 345)**	
Expenditure						
Personnel	(103 729 103)	11 905 580	**(91 823 523)**	(87 436 519)	**4 387 004**	49.8
Remuneration of councillors	(6 726 468)	(365 352)	**(7 091 820)**	(7 236 967)	**(145 147)**	
Depreciation and impairment	(11 232 365)	-	**(11 232 365)**	(42 804 584)	**(31 572 219)**	49.9
Finance costs	(4 759 799)	-	**(4 759 799)**	(3 441 913)	**1 317 886**	49.10
Bad debts written off	(21 461 953)	(638 000)	**(22 099 953)**	(25 990 564)	**(3 890 611)**	49.11
Collection costs	(695 427)	(190 999)	**(886 426)**	(885 333)	**1 093**	
Repairs and maintenance	(24 740 922)	(1 361 718)	**(26 102 640)**	(21 867 782)	**4 234 858**	49.12
Bulk purchases	(80 432 271)	(6 358 575)	**(86 790 846)**	(83 791 886)	**2 998 960**	49.13
Contracted Services	(10 249 430)	(3 367 965)	**(13 617 395)**	(13 468 960)	**148 435**	
Grant and subsidies	(7 110 000)	(5 000 000)	**(12 110 000)**	(8 697 332)	**3 412 668**	49.14
Sale of goods/Inventory	-	-	**-**	-	**-**	
General Expenses	(46 044 773)	109 991	**(45 934 782)**	(44 782 282)	**1 152 500**	49.15
Total expenditure	**(317 182 511)**	**(5 267 038)**	**(322 449 549)**	**(340 404 122)**	**(17 954 573)**	
Deficit before taxation	**28 274 376**	**(5 757 359)**	**22 517 017**	**(20 806 901)**	**(43 323 918)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**28 274 376**	**(5 757 359)**	**22 517 017**	**(20 806 901)**	**(43 323 918)**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Accounting Policies

1.2 Property, plant and equipment (continued)

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		indefinite
Buildings	Straight line	30 years
Plant and machinery - Specialised	Straight line	10-15
Furniture and fixtures	Straight line	15
Motor vehicles (Specialised is 10 years, Other is 5 years)	Straight line	5 -10 years
Office equipment	Straight line	3 years
IT equipment	Straight line	5 years
Intangibles	Straight line	1-3 years
Plant and Machinery (Other)	Straight line	7-10 years
Infrastructure (Roads and Paving)	Straight line	30 years
Infrastructure - Pedestrian malls	Straight line	30 years
Infrastructure - Electricity	Straight line	20 - 30 years
Community Buildings	Straight line	30 years
Recreational Facilities	Straight line	20-30 years
Security	Straight line	5 yeras
Bins and containers	Straight line	5 years
Investment property	Straight line	30 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.3 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

Accounting Policies

1.3 Intangible assets (continued)

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software, other	1-3 years

1.4 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.5 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

Trade receivables and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Consumer debtors are expected to be realised within 12 months after the reporting date.

The impairment for trade and other receivable is calculated based using the ageing as follows : 30 days 15%, 90 days 30%, 120 days 35% and 150 days 55% based on historical loss ratios.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Useful lives of property, plant and equipment

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norms. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The appointed actuary determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the appointed actuary considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

1.6 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Accounting Policies

1.6 Investment property (continued)

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land that is measured at revalued amount which is the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	**Useful life**
Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.7 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 25: Employee benefits

1.8 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.8 Site restoration and dismantling cost (continued)

If the related asset is measured using the revaluation model:
(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.9 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.10 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

1.10 Heritage assets (continued)

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.11 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015-07-01 to 2016-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Comparative information is not required.

1.12 Housing Development Fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund.

Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.13 Related parties

The municipality has processes and controls in place to aid in the identification of related parties. A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Where transactions occurred between the entity any one or more related parties, and those transactions were not within:
- normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances; and
- terms and conditions within the normal operating parameters established by the reporting entity's legal mandate;

1.14 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Held-to-maturity investment
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

1.14 Financial instruments (continued)

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired.

The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Consumer debtors

Consumer debtors are initially recognised at fair value, and are subsequently measured at amortised cost.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are initially recorded at fair value, and subsequently measured at amortised cost, using the effective interest rate method.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Long term loans

Long term loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

1.14 Financial instruments (continued)

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
- has transferred substantially all the risks and rewards of the asset, or
- has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.15 Work in progress

1.16 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The cost of items of property, plant and equipment that under construction as of the reporting date is recognised as an asset if:
- it is probable that future economic benefits or service potential associated with the item(s) will flow to the municipality, and
- the cost or fair value of the item(s) can be measured reliably.

Assets under construction consist of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. The expenditure comprises direct labour, materials and overheads, if appropriate.

When assets under construction are completed and certificates of completion issued, they are transferred to the appropriate asset class.

Assets under construction are not depreciated as they are not in a condition necessary for it to be capable of operating in the manner intended by management.

1.17 Impairment of cash-generating assets and non-cash generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

1.17 Impairment of cash-generating assets and non-cash generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.18 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets.

Other post retirement obligations

The municipality provides post-retirement health care benefits and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.19 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Accounting Policies

1.19 Provisions and contingencies (continued)

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are not recognised for future operating Surplus.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

1.20 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, volume rebates and value-added taxes (VAT).

1.20 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service charges for electricity are based on consumption by consumers as is recorded on each consumer's meter.

Meters are read each month and the revenue is recognised in the period in which invoices are raised.

Provisional estimates of consumption are made in periods where meter readings have not been able to be carried out. The revenue from these provisional readings is also recognised as revenue when invoiced.

Adjustments to provisional estimates and recognition of the amended revenue arising as a result, are made in the invoicing period in which meters are read.

Revenue from the sale of electricity prepaid meter cards is recognised immediately in revenue.

Service charges for refuse removal are raised and recognised on a monthly basis in arrears.

Refuse charges are based on the application of the approved tariff to each property that has improvements, the category of property usage and the number of refuse containers on each property regardless of whether or not containers are emptied during the month.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service has been rendered and the fee has been charged or licenses and permits have been issued.

Income from agency services is recognised on a monthly basis once the income collected from agents has been quantified and the terms of the agency agreement have been complied with.

Interest

Interest is recognised in surplus or deficit using the effective interest rate method.

1.21 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the municipality receives value from another institution/ individual without directly giving approximately equal value in exchange.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.
When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue. at the fair value of the consideration received or receivable, net of trade discounts and volume rebates and value-added taxes (VAT).

1.21 Revenue from non-exchange transactions (continued)

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Penalty interest is raised on unpaid rates after the due date for payment and is recognised on a time proportion basis.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the municipality the cash actually collected on summonses issued.

Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.22 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.23 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.24 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.25 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.26 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

2. New standards and interpretations (continued)

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

2. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 21 (as amended 2015): Impairment of non-cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Identifying an asset that may be impaired:

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss:

An indicator has been added that the restoration of an asset's service potential following physical damage to the asset could indicate a reversal in an impairment loss.

Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Disclosures:

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 26 (as amended 2015): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

General definitions:

The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Disclosures:

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. "Generally accepted accounting practice" has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2018.

The municipality expects to adopt the standard for the first time in the 2019 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

3. Investment property

	2016			2015		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	6 122 000	(1 065 013)	5 056 987	6 122 000	(798 581)	5 323 419

Reconciliation of investment property - 2016

	Opening balance	Depreciation	Total
Investment property	5 323 419	(266 436)	5 056 987

Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	5 523 051	(199 632)	5 323 419

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Transfers	Depreciation	Impairment	Total
Land	125 248 081	-	-	-	(621 733)	124 626 348
Buildings	51 527 134	-	3 811 254	(3 515 003)	-	51 823 385
Machinery and equipment	862 864	927 499	-	(232 442)	-	1 557 921
Furniture and office equipment	1 573 124	1 130 898	-	(379 096)	-	2 324 926
Motor vehicles	5 414 015	771 699	-	(822 631)	-	5 363 083
Motor vehicles - leased	1 092 130	-	-	(535 081)	-	557 049
Computer equipment	1 310 574	571 620	-	(398 076)	-	1 484 118
Electricity	51 778 930	-	-	(2 779 595)	-	48 999 335
Assets under construction	52 727 936	15 607 983	(6 573 277)	-	-	61 762 642
Roads and Storm water network	497 341 604	-	2 762 023	(33 223 150)	-	466 880 477
	788 876 392	**19 009 699**	**-**	**(41 885 074)**	**(621 733)**	**765 379 284**

Reconciliation of property, plant and equipment - 2015

	Opening balance Restated	Additions Restated	Transfers	Other changes, movements	Depreciation restated	Impairment loss	Total
Land	125 869 815	-	-	-	-	(621 733)	125 248 082
Buildings	55 008 254	-	-	-	(3 481 120)	-	51 527 134
Machinery and equipment	907 826	271 415	-	-	(316 378)	-	862 863
Furniture and office equipment	1 029 606	166 405	-	830 556	(453 443)	-	1 573 124
Motor vehicles	5 524 055	878 080	-	-	(988 120)	-	5 414 015
Motor vehicles - leased	2 267 114	-	-	-	(1 174 984)	-	1 092 130
Computer equipment	1 066 349	644 743	-	30 659	(431 176)	-	1 310 575
Electrical	54 672 816	-	-	-	(2 893 887)	-	51 778 929
Assets under construction	34 050 665	52 174 549	(33 497 278)	-	-	-	52 727 936
Roads and storm water network	494 997 985	-	33 497 278	-	(31 153 659)	-	497 341 604
	775 394 485	**54 135 192**	**-**	**861 215**	**(40 892 767)**	**(621 733)**	**788 876 392**

	2016 R	2015 R

4. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

	2016	2015
Motor vehicles	2 907 516	1 371 096
IT equipment	1 092 130	1 092 130
	3 999 646	**2 463 226**

5. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	172 006	(42 507)	129 499	43 549	(11 167)	32 382

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	32 384	128 455	(31 340)	129 499

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Other changes, movements	Amortisation	Total
Computer software	135 102	43 549	(24 687)	(121 580)	32 384

6. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	2 462 016	-	2 462 016	2 462 016	-	2 462 016
Mayoral Chains	60 000	-	60 000	60 000	-	60 000
Museums	2 870 599	-	2 870 599	2 870 599	-	2 870 599
Total	**5 392 615**	**-**	**5 392 615**	**5 392 615**	**-**	**5 392 615**

Reconciliation of heritage assets 2016

	Opening balance	Total
Historical monuments	2 462 016	2 462 016
Mayoral Chains	60 000	60 000
Museum	2 870 599	2 870 599
	5 392 615	**5 392 615**

Reconciliation of heritage assets 2015

	2016 R	2015 R

6. Heritage assets (continued)

	Opening balance	Total
Historical monuments	2 462 016	2 462 016
Mayoral Chains	60 000	60 000
Museums	2 870 599	2 870 599
	5 392 615	**5 392 615**

7. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The Council operates a defined medical aid benefit scheme for the benefit of its permanent employees. Post-retirement medical aid benefits are offered to all employees by subsidising a portion of the medical aid contribution after retirement.

The post-retirement medical aid subsidy for qualifying employees is 60% of the applicable medical aid. The post-retirement medical aid for qualifying pensioners is 60% or 67% of the total monthly contribution to the applicable medical aid. Widow(er)s and orphans of eligible in-service members are not entitled to receive a subsidy on and after the death in-service of an employee.

The most recent actuarial valuation was performed on 30 June 2016 by ZAQEN Actuaries (Pty) Ltd (trading as ZAQ Consultants and Actuaries) using the Projected Unit Credit Funding Method.

The full liability has been recognised as at the date of the statement of financial postion. The liability as at the reporting date is R 21 586 000

Long service award

The Council offers employees leave awards that may be exchanged for cash on certain anniversaries of commencing service and a retirement gift determined by reference to length of service. The most recent actuarial valuation was performed on 30 June 2016 by ZAQEN Actuaries (Pty) Ltd (trading as ZAQ Consultants and Actuaries) using the Projected Unit Credit Method.

The full liability has been recognised as at the date of the statement of financial postion. The liability as at the reporting date is R 5 285 000

The amounts recognised in the statement of financial position are as follows:

	2016 R	2015 R
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(25 357 000)	(22 944 000)
Present value of the defined benefit obligation-partly or wholly funded	(1 457 000)	(1 317 000)
Fair value of reimbursement rights	(2 330 000)	(2 020 000)
Benefit Payments	1 111 000	(328 000)
Benefit Payment	1 162 000	1 252 000
Asset not recognised	-	-
	(26 871 000)	**(25 357 000)**
Non-current liabilities	(25 555 000)	(24 206 000)
Current liabilities	(1 316 000)	(1 151 000)
	(26 871 000)	**(25 357 000)**

	2016 R	2015 R

7. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	1 457 000	1 317 000
Interest Cost	2 330 000	2 020 000
Actual Gain and Loss	1 162 000	328 000
	4 949 000	**3 665 000**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8,94 %	8,94 %
Expected rate of return on assets	8,05 %	8,05 %
Expected increase in salaries	0,82 %	0,82 %
Expected pension increases	7,05 %	7,05 %

Defined contribution plan

Post retirement pension plan- Natal Joint Municipal Pension Fund

The Municipality's personnel are members of one of the Natal Joint Municipal Pension (NJMPF) retirement funds, namely the Superannuation, Retirement and Provident Funds. As the aforementioned funds are multi-employer funds, the allocation of any surplus/deficit to individual municipalities cannot be determined.

Furthermore disclosure of further details such as actuarial assumptions, cannot be attributed to any specific municipality and is of no relevance to users of the Municipality's financial statements. As the required disclosure information cannot be obtained the funds are all treated as defined contribution plans.

An independent valuer carries out a statutory valuation of the NJMPF on a triennial basis and an interim valuation on an annual basis. The 2016 interim valuations have not yet been released.

8. Investments

Unlisted investments

Collateral security fixed deposits - Rand Merchant Bank	1 435 356	1 340 941
Notice deposits - Absa Bank	11 160 436	10 304 930
Fixed Deposit - Absa	149 567	5 069 467
Fixed Deposit - FNB	1 581 526	1 470 896
Call Account - FNB	7 141 686	-
Notice Deposit - Investec	11 569 706	20 362 216
	33 038 277	**38 548 450**

Average rate of return on investments	6%	6%
Investments pledged as collateral security for loans	1 435 356	1 340 941

9. Other receivables

Interest receivable	11 321	11 321
Other receivables	3 058 060	2 763 605
	3 069 381	**2 774 926**

Notes to the Annual Financial Statements

	2016 R	2015 R

10. Consumer Debtors

Consumer debtors	81 745 572	58 927 542
Less: Provision for bad debts	(36 089 636)	(27 573 737)
	45 655 936	**31 353 805**

11. Receivables from non-exchange transactions

Debtors- traffic fines (net)	10 238 479	8 269 258

Reconciliation of receivables from non-exchange transactions

Opening balance	8 269 258	3 821 177
Debtors - traffic fines	6 017 723	15 327 748
Debt impairement	(4 048 502)	(10 879 667)
	10 238 479	**8 269 258**

The Municipality has two traffic fine billing systems. TMT (outsourced serviced provider) is responsible for the system used to issue fines for speed traffic offenders along the N3 toll road within the municipal boundary. TRAFMAN is a system used by the municipality to issue fines for other traffic offences. Both TMT and the municipality work closely with the magistrates court to ensure that accurate recording of the status of fines (including the statuses of summons, appeals,fine reducions etc). Monies collected by the Magistrate are transferred to the municiaplity's bank account.

12. VAT receivable

VAT	6 660 475	5 565 441

13. Cash and cash equivalents

Cash and cash equivalents consist of: Absa bank limited - 4063796636 : Bank statement balance at year end (primary) R 7 362 164.

Cash on hand	2 210	2 210
Bank balances	6 794 022	8 101 021
	6 796 232	**8 103 231**

The Municipality has the following bank accounts:

Current accounts		
Absa Bank Limited - Account No. 4063796636: Bank statement balance at year end (Primary account)	7 362 164	6 880 943
Absa Bank Limited - Account No: 9264784869	262 141	636 675

14. Revaluation reserve

Opening balance	127 470 628	127 470 628

The revaluation reserve has resulted from the revaluation of property, plant and equipment.

15. Housing Operating Account

Opening Balance	15 108 143	(235 834)
Loans extinguished by Government on 1 April 1998	-	15 343 977
	15 108 143	**15 108 143**

	2016 R	2015 R

16. Annuity loans

Designated at fair value		
External Loan - DBSA Account number - 61003296	6 921 512	7 399 521
External Loan - DBSA Account number - 61000591	1 798 412	2 049 468
External Loan - DBSA Account number - 61000576	12 902 535	13 519 021
External Loan - ABSA Account number - 302200978	7 999 999	9 333 333
	29 622 458	**32 301 343**

The loans attract interest at rates between 5% to 12.62% per annum and are being redeemed in monthly and quarterly instalments.

The annuity loans were acquired for the construction of infrastructure. Construction was completed in 2009 and the municipality is currently redeeming the amount borrowed.

Non-current liabilities		
At amortised cost	26 235 723	29 022 019
Current liabilities		
At amortised cost	3 386 736	3 279 327

17. Finance lease obligation

Minimum lease payments due		
- Within one year	1 110 938	1 049 410
- In second to fifth year inclusive	406 640	451 155
- later than five years	(166 367)	(98 128)
Present value of minimum lease payments	**1 351 211**	**1 402 437**
Present value of minimum lease payments due		
- Within one year	965 458	971 767
- In second to fifth year inclusive	385 760	430 670
	1 351 218	**1 402 437**
Non-current liabilities	385 760	430 666
Current liabilities	965 458	971 769
	1 351 218	**1 402 435**

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 4-5 years.

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

In the prior year the finance lease liability was disclosed under other financial liabilities, it has been reclassified in the current year.

Notes to the Annual Financial Statements

	2016 R	2015 R

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2016 R	2015 R
Unspent conditional grants and receipts		
Data cleansing grant	-	24 851
Expanded Public Works Programme grant	-	28 429
Provincial - Cedara College/ Khanya Village Road	536 449	1 256 245
Mandela capture site phase 2	10 058 933	19 926 867
MAP Synergistic Partnership	347 941	354 489
Cleanest town award	-	755
Integrated National Electricity Programme Grant	1	6 616
Museum Grant	-	490 005
Massification grant	135 115	135 115
	11 078 439	**22 223 372**

Movement during the year

	2016 R	2015 R
Balance at the beginning of the year	22 223 372	17 831 033
Movement during the year	(11 144 933)	4 392 339
	11 078 439	**22 223 372**

See note 25 for reconciliation of grants from other spheres of government.

19. Provisions

Reconciliation of provisions - 2016

	Opening balance	Interest wind down	Closing balance
Environmental rehabilitation	18 116 688	4 413 659	22 530 347
Provision for leave	6 625 793	937 957	7 563 750
	24 742 481	**5 351 616**	**30 094 097**

Reconciliation of provisions - 2015

	Opening balance	Utilised during the year	Closing balance
Environmental rehabilitation	16 556 056	1 560 632	18 116 688
Provision for leave	6 139 909	485 884	6 625 793
	22 695 965	**2 046 516**	**24 742 481**

The landfill site provision is raised for the rehabilitation of the refuse disposal site to its original state once the site has reached the end of its useful life.

20. Trade and other payables from exchange transactions

	2016 R	2015 R
Trade payables	-	973 412
Unclaimed deposits	1 702 453	1 702 965
Accruals	11 887 206	6 897 903
Deposits received	4 727 010	3 369 493
Retentions	1 968 446	2 216 049
Other sundry creditors: District municipality	1 093 082	1 093 082
Accrued expense - DBSA accrude interest	598 615	598 615
Sundry creditors	1 892 162	2 091 247
	23 868 974	**18 942 766**

	2016 R	2015 R

20. Trade and other payables from exchange transactions (continued)

The fair value of trade and other payables approximate their carrying amount.

21. Consumer deposits

Electricity	2 295 977	2 198 071

22. Revenue

Service charges	62 487 450	57 767 738
Rental of facilities and equipment	700 857	843 849
Licences and permits	3 206 426	2 655 121
Provision for bad debbts adjust	-	4 764 421
Property rates	154 859 936	119 499 372
Property rates - Penalties imposed and collection charges	7 343 344	6 596 240
Government grants & subsidies	71 131 777	102 976 662
Fines, Penalties and Forfeits	9 100 750	21 641 800
	308 830 540	**316 745 203**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	62 487 450	57 767 738
Rental of facilities and equipment	700 857	843 849
Licences and permits	3 206 426	2 655 121
Provision for bad debts adjust	-	4 764 421
	66 394 733	**66 031 129**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	154 859 936	119 499 372
Property rates - Penalties imposed and collection charges	7 343 344	6 596 240
Transfer revenue		
Government grants and subsidies	71 131 777	102 976 662
Fines, Penalties and Forfeits	9 100 750	21 641 800
	242 435 807	**250 714 074**

Notes to the Annual Financial Statements

	2016 R	2015 R

23. Property rates

Rates received

Residential	123 650 744	78 396 576
Commercial	34 447 749	23 079 519
Small holdings and farms	32 177 796	32 080 005
Education and state	8 718 169	17 372 302
Private open space	2 037 546	4 183 637
Less: Income forgone rebates	(46 172 068)	(35 612 667)
Income received	154 859 936	119 499 372
Property rates - Penalties imposed and collection charges	7 343 344	6 596 240
	162 203 280	**126 095 612**

Valuations

Residential	15 521 867 500	10 364 971 510
Commercial	4 036 598 000	3 104 237 000
Education and State	1 094 391 000	2 336 606 000
Municipal	283 181 325	228 342 400
Agriculture	4 039 276 000	4 267 622 056
Private open space	255 773 000	556 551 700
State	287 625 000	17 365 000
	25 518 711 825	**20 875 695 666**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2015. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an annual basis with the final date for payment being 30 June 2015 (31 July 2014). Interest at 1% per annum except february which 10% (2015.1% is levied on rate outstanding one month after due date .

A basic rate of randage is applied to the valuations of all types of properties, the amount is 1.27 cents in the Rand (2015: 1.45cents).

Rebates

Agriculture - additional	82.50%	82.5%
Bona fide farmers	0%	0%
Residential (The first R100,000 is exempt in terms of the rates policy)	30%	30%
Pensioners (Qualifying on with income up to R9,000 on a sliding scale)	30%	30%
State	30%	30%

24. Service charges

Sale of electricity	56 672 222	52 718 366
Refuse removal	5 815 228	5 049 372
	62 487 450	**57 767 738**

The estimated distribution loss of R 43 570 105 (2015: R 32 152 873) is noted.

The contractor has finalised the project to identify losses and the recommendation is to undertake a full audit of all electrical installations within the area of supply. There is currently no funding available to begin this process.

The Municipality is applying its Credit Control and Debt Collection Policy and By-Laws in an effort to reduce losses, however the losses are of a technical nature and the Municipality is busy investigating strategies to further reduce the losses.

Notes to the Annual Financial Statements

	2016 R	2015 R

25. Government grants and subsidies

Operating grants		
Equitable share	44 316 000	40 228 505
Integrated National Electricity	1 715 285	418 489
Municipal systems improvement grant	930 000	1 315 392
Finance Management Grant	1 600 000	1 977 407
MAP Synergistic Partnership	6 548	3 700
Cleanest town award	755	168 000
Museum Grant	656 005	160 995
Library staffing costs	2 976 000	2 752 000
Expanded public works grant	1 466 429	971 571
Data cleansing grant	24 851	150 024
	53 691 873	48 146 083
Capital grants		
Municipal Infrustructure Grant	6 852 176	21 415 000
Masification	-	447 885
Cidara College- Kanya Village	719 795	655 576
Mandela capture site- phase 2	9 867 974	32 312 118
	17 439 945	54 830 579
	71 131 818	**102 976 662**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

	44 316 000	37 208 000

Municipal Systems Improvement Grant

.	-	381 391
Current year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(1 315 391)
	-	-

Finance Management Grant

Balance unspent at beginning of year	-	377 407
Current year receipts	1 600 000	1 600 000
Conditions met - transferred to revenue	(1 600 000)	(1 977 407)
	-	-

Municipal Infrustructure Grant

Current year receipts	13 249 000	21 415 000
Unapproved roll over	(6 396 825)	-
Conditions met - transferred to revenue	(6 852 175)	(21 415 000)
	-	-

Notes to the Annual Financial Statements

	2016 R	2015 R

25. Government grants and subsidies (continued)

Mandela Capture Site - Phase 2

Balance unspent at beginning of year	19 926 867	12 537 985
Current-year receipts	-	39 701 000
Conditions met - transferred to revenue	(9 867 934)	(32 312 118)
	10 058 933	**19 926 867**

MAP Synergistic Partnership

Balance unspent at beginning of year	354 489	358 189
Current year receipts	-	-
Conditions met - transferred to revenue	(6 548)	(3 700)
	347 941	**354 489**

Cleanest Town Award

Balance unspent at beginning of year	755	168 755
Current year receipts	-	-
Conditions met - transferred to revenue	(755)	(168 000)
	-	**755**

Notes to the Annual Financial Statements

25. Government grants and subsidies (continued)

Provincial - Cedara College/Khanya Villlage Road

	2016 R	2015 R
Balance unspent at beginning of year	1 256 245	1 911 821
Current year receipts	-	-
Conditions met - transferred to revenue	(719 796)	(655 576)
	536 449	**1 256 245**

Integrated National Electricity Programme Grant

	2016 R	2015 R
Balance unspent at beginning of year	6 616	425 105
Current year receipts	5 000 000	-
Conditions met - transferred to revenue	(1 715 285)	(418 489)
Unapproved Roll-over	(3 291 331)	-
	-	**6 616**

Museum Howick

	2016 R	2015 R
Balance unspent at beginning of year	490 005	500 000
Current year receipts	166 000	151 000
Conditions met - transferred to revenue	(166 000)	(160 995)
	490 005	**490 005**

Data Cleansing

	2016 R	2015 R
Balance unspent at beginning of year	24 851	174 875
Current year receipts	24 851	-
Conditions met - transferred to revenue	(24 851)	(150 024)
	24 851	**24 851**

Expanded Public Works Program

	2016 R	2015 R
Balance unspent at beginning of year	28 429	995 505
Current year receipts	1 438 000	1 000 000
Conditions met - transferred to revenue	(1 466 429)	(971 571)
Other	-	(995 505)
	-	**28 429**

Notes to the Annual Financial Statements

	2016 R	2015 R

25. Government grants and subsidies (continued)

Libraries

Current year receipts	2 976 000	2 752 000
Conditions met - transferred to revenue	(2 976 000)	(2 752 000)
	-	-

Massification

Balance unspent at beginning of year	135 115	-
Current year receipts	-	583 000
Conditions met - transferred to revenue	-	(447 885)
	135 115	**135 115**

26. Other income

Shared services model	434 919	571 864
Building plan fees and drainage fees	1 532 940	2 037 085
Reconnection fee	155 190	587 811
Valuation fee	14 556	196 658
Hall hire	194 580	219 577
Burial fees	48 176	32 727
Advertising	255 666	198 679
Connection income	379 273	174 556
LGSETA receipts	35 899	89 178
Insurance claim received	-	148 059
Sundry income	357 086	307 874
Subdivision income	30 175	97 347
Rates certificate income	264 682	239 429
	3 703 142	**4 900 844**

Notes to the Annual Financial Statements

27. General expenses

	2016 R	2015 R
Advertising	548 808	497 046
Auditor's remuneration	1 228 994	1 130 041
Bank Charges	720 124	683 716
Consulting and professional fees	6 380 314	7 751 515
Consumables	11 520	16 416
Contribution to landfill site provision	4 413 659	1 560 632
Veterinary department	799 671	783 901
Contribution to fire fighting services	398 410	263 186
Commission paid	1 410 826	2 556 672
Computer expenses	1 000 907	405 890
Community development and training	1 381 837	603 564
Discount allowed- traffic fines	23 000	-
Entertainment	8 000	126 842
Electricity	5 184 645	4 512 655
	1 965 041	-
Lease rentals on operating lease	5 253 685	2 926 172
Hygiene services	195 580	187 250
Insurance	442 042	460 484
IDP expenditure	276 902	684
IDP expenditure	2 473 276	2 103 653
IT expenses	374 285	343 639
Material and small tools	80 557	95 396
Magazines, books and periodicals	15 956	41 439
Medical expenses	5 970	9 027
Medical aid retired staff	684 286	651 787
Motor vehicle expenses	247 225	436 816
Postage and courier	1 104 516	1 125 574
Printing and stationery	415 952	543 773
Refuse	43 758	24 153
SARS penalties	1 379 230	-
Sewerage and waste disposal	48 889	38 428
Subscriptions and membership fees	389 761	1 669 461
Telephone and fax	1 464 306	1 376 590
Training	458 335	1 024 346
Transfer of RDP houses to beneficiaries	839 091	-
Uniforms	57 157	267 254
Valuation expenses	2 513 133	3 237 767
Water	452 194	442 767
	44 691 842	**37 898 536**

Notes to the Annual Financial Statements

	2016 R	2015 R

28. Grant operating expenditure

Cleanest town award	662	168 000
Library computer assistant Howick west	31 399	-
Finance management grant	1 753 010	2 229 407
Municipal systems improvement	901 413	1 091 826
Libary staffing costs	3 215 705	2 659 495
Intergrated Electrification Project	1 504 636	4 974
Expanded public works programme	1 380 947	834 867
	8 787 772	**6 988 569**

29. Employee related costs

Basic	51 085 234	49 341 091
Bonus	3 884 004	3 695 393
Medical aid - company contributions	4 197 756	3 742 069
UIF	463 182	451 203
WCA	543 587	597 201
SDL	767 694	728 100
Leave pay provision charge	2 938 879	2 375 551
Post-employment benefits - Medical aid and long service	1 533 500	2 421 750
Defined contribution plans	10 605 564	9 913 599
Overtime payments	5 586 852	5 562 675
Car allowance	3 774 360	2 963 770
Housing benefits and allowances	609 865	247 805
Cellphone allowance	311 250	314 158
Standby allowance	113 588	113 340
Subsistence and Travelling	1 021 204	929 627
	87 436 519	**83 397 332**

Remuneration of Municipal Manager

Annual remuneration	1 004 371	-
Cellphone allowance	19 605	-
Re-imbursive Travel	1 642	-
	1 025 618	**-**

Remuneration of Chief Financial Officer

Annual remuneration	790 639	423 072
Travel allowance	268 122	90 000
Acting allowance	-	196 206
Cell phone allowance	18 000	15 000
Re-imbursement	15 757	15 273
	1 092 518	**739 551**

Remuneration of General Manager Technical Services

Annual remuneration	812 180	774 733
Travel allowance	190 500	180 000
Cellphone Allowance	18 000	18 000
Re-imbursive traveling	117 246	85 091
	1 137 926	**1 057 824**

	2016 R	2015 R

29. Employee related costs (continued)

Remuneration of General Manager Community Services

Annual remuneration	812 150	451 911
Travel allowance	190 530	105 017
Cell phone allowance	18 000	10 500
Re-imbursive travel	34 314	-
	1 054 994	**567 428**

Remuneration of General Manager Planning and Development

Annual remuneration	818 500	780 705
Travel allowance	184 180	174 029
Acting allowance	118 339	-
Cellphone allowance	18 000	18 000
Re-imburstive travel	3 010	-
	1 142 029	**972 734**

GM Planning and Development also received an acting allowance in the current financial during, for the period in which he acted as the Municipal Manager.

Remuneration of General Manager Corporate Services

Annual remuneration	812 150	774 705
Travel allowance	190 530	180 029
Acting allowance	-	34 720
Cellphone allowance	18 000	18 000
Re-imbursive Travelling	104 668	48 686
	1 125 348	**1 056 140**

All general managers received sumsung tablets of which is not included in the above packages

30. Remuneration of councillors

Mayor's allowance	778 878	739 361
Deputy Mayor allowance	614 843	333 147
Executive Committee allowance	576 000	312 995
Speaker	613 307	332 754
Councillors allowance	4 653 939	4 401 136
	7 236 967	**6 119 393**

Management have considered the effects of any impairment in the values of outstanding debtors and the value of the provision for bad debts.

The provision is adequate to account for any material losses expected to arise from any adjustment that are required to be made to the outstanding balance.

Gross amounts

Rates	61 987 704	35 642 106
Electricity	15 871 509	17 556 595
Refuse	2 257 729	2 441 691
Legal costs	15 646	33 554

Notes to the Annual Financial Statements

	2016 R	2015 R
Housing rental	432 824	519 525
Sundry debtors	1 180 159	2 734 073
	81 745 571	**58 927 544**
Less: Provision for bad debts		
Rates	31 113 935	18 540 593
Electricity	3 449 748	6 419 574
Rental	767 461	228 692
Refuse	143 721	944 113
Sundry debtors	606 166	1 422 312
Legal	8 605	18 454
	36 089 636	**27 573 738**
Net balance		
Rates	30 873 769	17 101 513
Electricity	12 421 761	11 137 021
Rentals	289 102	290 833
Refuse	1 490 268	1 497 578
Legal costs	7 041	15 099
Sundry debtors	573 994	1 311 761
	45 655 935	**31 353 805**
Age analysis		
Rates		
Current (0 to 30 days)	-	3 233 394
31 to 60 days	4 224 992	3 918 783
61 to 90 days	11 661 759	1 548 709
91 to 120 days	3 302 168	3 428 193
121 to 150 days	-	2 376 252
151 days and over	51 589 129	21 136 774
	70 778 048	**35 642 105**
Electricity		
Current (0 to 30 days)	4 868 786	4 196 067
31 to 60 days	1 527 666	1 275 703
61 to 90 days	3 938 642	402 959
91 to 120 days	744 306	257 117
21 days to 150 days	-	10 779
151 days and over	4 792 109	11 403 969
	15 871 509	**17 546 594**
Refuse		
Current (0 to 30 days)	495 092	453 152
31 to 60 days	218 214	165 504
61 to 90 days	152 568	96 831
91 days to 120 days	83 776	79 297
151 days and over	1 308 079	3
	2 257 729	**794 787**
Sundries		
Current (0 to 30 days)	12 755	29 362
31 to 60 days	3 114	57 663
61 to 90 days	83 771	52 224
91 to 120 days	2 743	50 699

	2016 R	2015 R
151 days and over	1 077 776	2 544 124
	1 180 159	**2 734 072**

Legal costs		
151 days and over	15 646	33 554

Housing		
Current (0 to 30 days)	53 914	51 187
31 to 60 days	46 936	32 516
61 to 90 days	81 948	17 983
91 to 120 days	24 342	9 867
121 to 150 days	-	9 000
151 days and over	225 684	398 971
	432 824	**519 524**

Reconciliation of doubtful debt provision		
Opening balance	27 573 737	32 338 159
Contribition made during the year	8 515 899	(4 764 421)
	36 089 636	**27 573 738**

Indigent customers

The indigent debtors receive 100kwh of free electricity per month provided that they have a prepaid meter installed in their home. Properties with a valuation up to a maximum of R200,000, are also exempt from paying refuse charges.

Consumer debtors impaired

As of 30 June 2016, consumer debtors of R 36 089 636 ,(2015: R 27 573 737) were impaired and provided for.

The aging of these debtors is as follows:

3-6 months	36 089 636	27 573 737

The municipality profiled all debtors according to their risk profile. This risk profile was then used to calculate the doubtful debt provision.

31. Bad debts

Debt impairment- traffic fines	4 048 502	10 876 667
Debts written off- consumer debtors	21 942 062	11 156 133
	25 990 564	**22 032 800**

32. Interest revenue

Interest revenue		
Other financial assets	3 633 733	2 740 781
Interest charged on trade and other receivables	1 714 903	1 655 273
	5 348 636	**4 396 054**

Notes to the Annual Financial Statements

	2016 R	2015 R

33. Depreciation and amortisation

Property, plant and equipment	-	-
Investment property	266 436	199 632
Biological assets	-	-
Intangible assets	31 340	110 412
Property, plant and equipment (Refer note 3)	42 506 808	41 514 501
	42 804 584	**41 824 545**

34. Finance costs

Non-current borrowings	3 221 198	3 987 539
Finance leases	175 140	306 454
Interest on overdue accounts	45 575	8 791
	3 441 913	**4 302 784**

35. Auditors' remuneration

Fees	1 228 994	1 130 041

36. Bulk purchases

Electricity purchases	83 791 886	72 285 938

37. Operating lease

Describe the lessee's significant leasing arrangements which include:

- basis on which contingent rent payable is determined.
- the existence and terms of renewal or purchases options and escalation clauses; and
- restrictions imposed by lease arrangements, such as those concerning return of net surplus, return of capital contributions, dividends, additional debt and further leasing.

38. Cash generated from operations

(Deficit) surplus	(22 521 804)	26 547 790
Adjustments for:		
Depreciation and amortisation	42 804 584	41 824 544
Finance costs - Finance leases	-	428 051
Increase in contribution to bad debt provision	25 990 564	22 032 800
Movements in operating lease assets and accruals	-	(7 991)
Movements in retirement benefit assets and liabilities	(398 217)	2 413 000
Movements in provisions	4 413 659	2 046 516
Movement in tax receivable and payable	-	(705 397)
Transfer of RDP houses to beneficiaries	-	-
Changes in working capital:		
Other receivables	(294 455)	(277 650)
Consumer debtors	(10 842 396)	(15 697 135)
Other receivables from non-exchange transactions	(18 350 633)	(15 324 748)
Trade and other payables from exchange transactions	4 926 208	(5 356 935)
VAT receivable	(1 095 034)	2 521 657
Unspent conditional grants and receipts	(11 144 933)	4 392 339
	13 487 543	**64 836 841**

Notes to the Annual Financial Statements

	2016 R	2015 R

39. Commitments

Authorised capital expenditure

	2016 R	2015 R
Approved and contracted for		
• Mandela capture site	2 065 289	17 924 774
• Mpophomeni sportfield & Lidgeton Sportsfield	2 900 093	784 246
• Siphumelele Road	-	1 409 450
• Roads and Stormwater (Ward 10)	1 435 139	-
• Roads and Stormwater (Ward 11)	2 488 509	-
• Roads Rehabilitation	3 362 697	-
• Cedara khanya village	-	778 247
• Midlands Road and stormwater	3 883 548	-
• Mpophomeni Roads and Rehabilitation (Ward 09)	1 346 765	-
• Mpophomeni Hall	3 271 484	-
• Khayelisha Road	-	2 263 992
	20 753 524	**23 160 709**
Approved but not yet contracted for		
• Siphumelele	-	1 000 000
• Emandleni	500 000	1 000 000
• Lidgetton west sportfield	2 500 000	2 000 000
• Khayelisha roads	-	4 000 000
• Mpophomeni Sportsfield	-	1 500 000
• Mpophomeni Road Rehabilitation	12 000 000	9 749 000
• Lions river	-	1 000 000
• Other financial assets	6 866 000	7 000 000
	21 866 000	**27 249 000**
Total capital commitments		
Already contracted for but not provided for	20 753 524	-
Not yet contracted for and authorised by accounting officer	21 866 000	27 249 000
	42 619 524	**27 249 000**

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating expenditure

	2016 R	2015 R
The Municipality entered into agreements with various suppliers	19 772 598	12 454 364

The municipality has entered into a contract with suppliers for the provision of debt collection services, printing of statements, maintenance of the valuation roll, maintenance of the credit control system, cleaning services and security services. The total amount of these commitments are as follows.

Operating leases - as lessee (expense)

	2016 R	2015 R
Minimum lease payments due		
- Within one year	156 000	113 273
- In second to fifth year inclusive	179 405	110 676
	335 405	**223 949**

Operating leases consist of the following:

Notes to the Annual Financial Statements

	2016 R	2015 R

39. Commitments (continued)

Operating lease payments represent rentals payable by the municipality for certain office properties (Taxi rank and White House) and equipment. Leases are negotiated for 3 years for the rental of the taxi rank and printers, and the lease periods for the White House is five years. No contingent rent is payable.

The municipality also leases land used for conservation purposes, the lease term for this land is 99 years. No escalation rate is applicable for the lease term.

40. Contingencies

Informal dwellers have logged a claim for their eviction from Transnet property. The informal dwellers have requested that the municipality provide alternative accommodation. Value of this claim is undetermined.

Telkom has lodged s claim against the municipality for damages to Telkom telephone lines caused by a municipal tractor. the value of this claim could not be determined.

Mafuladi Dlamini and others have lodged a claim for their eviction from the Tumbleweed farm.

	2016 R	2015 R
Cow Catchers	-	146 000
SJ Dlamini	-	250 000
Cheryl Marian Mostert	20 000	20 000
Flat 7 Allermans Coart	15 000	15 000
Nkanyiso Sphesihle	-	50 000
Jaques Due Busson	-	22 000
Telkom SA Limited	41 902	43 000
N Amod	-	40 000
B Hlubi	3 190 000	3 190 000
Erf 3677-Howick	60 000	-
Erf 2667-Mpophomeni	10 000	-
Farm Highgate	50 000	-
Mohlo J Zuma	50 000	-
Erf 2356 - Howick West	50 000	-
Erf 110-150 Mpophomeni B	50 000	-
Epwp Workers	300 000	-
J Ostheizen	20 000	-
	3 856 902	**3 776 000**

C Mostet vs uMngeni Municipality claim for damages - pothole,Flat 7 allemans Court vs uMngeni Municipality eviction matter, Telkom SA vs uMngeni Muncipality claim for damages, B Hlubi vs uMngeni Municipality damages action against the municipality,erf 3677 Howick vs uMngeni Municipality sought legal advise against consultant company which failed to instal services at a develope site,

Erf2667 Mpophomeni vs uMngeni Municipality instituted legal proceedings to evict illegal occupies on municipal land,Farm Highgate vs uMngeni Municipality opinion and appeal,uMngeni Muncipality vs Mohlo J Zuma instituted legal proceedings to order the removal of an encroaching structure on the muncipal land,uMngeni Muncipality vs erf 2356-Howick institued the legal proceeding to evict illegal occupies in a building that is to be used by a councilor

Erf 110 to erf150, Mpophomeni B A possible PIE applicaton to evict illegal occupies of uMngeni land

Notes to the Annual Financial Statements

	2016 R	2015 R

41. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Financial instruments - 2016	Within 1 year	Between 1 - 5 years	More than 5 years	Total
Trade and other payables from exchange transactions	23 868 974	-	-	23 868 974
Finance leases	965 458	385 760	-	1 351 218
Annuity loans	3 386 736	12 453 939	13 781 784	29 622 459
	28 221 168	**12 839 699**	**13 781 784**	**54 842 651**

Financial Instruments 2015	Within 1 year	Between 1 - 5 years	More than 5 years	Total
Trade and other payables from exchange transactions	18 942 766	-	-	18 942 766
Finance leases	971 769	430 666	-	1 402 435
Annuity loans	3 279 327	11 687 943	17 334 075	32 301 345
	23 193 862	**12 118 609**	**17 334 075**	**52 646 546**

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates. The municipality limits its exposure to interest rate fluctuations by only dealing with well-established institutions and opting where possible for fixed interest rates rather than variable rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluate credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

These financial asset balances represent the maximum exposure to credit risk.

Financial instrument	2016	2015
Cash and cash equivalents	6 796 232	8 103 231
Investments	33 038 278	38 548 450
Consumer Debtors	45 655 936	31 258 293
	85 490 446	**77 909 974**

	2016 R	2015 R

42. Going concern

At 30 June 2016, the municipality had an accumulated Surplus of R 613 645 891 and that the municipality's total assets exceed its liabilities by R 756 224 662.

It is also noted that municipality's unspent conditional grants liabilities are fully cash backed. The unspent grants liability amounts to R 11 078 439 and the municipality has investment to the value R 33 038 278 and cash and cash equivalents to the amount R 6 796 232 .

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these are:

- Bi weekly meetings in the form of the Interim Finance Committee, to plan and approve only essential expenditure for the forthcoming weeks and to ensure that the unspent conditional grants are moving to a position of being cash backed.

- The Credit control and Valuation sub-committees meet monthly to tackle revenue enhancement issues by addressing the issue of outstanding debtors and valuation queries respectively. These committees have already achieved success by requesting all stakeholders involved in revenue enhancement to account monthly and provide direction on how to maximise revenue and reduce the outstanding debtors. A panel of attorneys have been appointed to assist with debt collection of debtors exceeding 90 days.

- Council and the Interim Finance committee is committed to turning the situation around and has frozen all vacant posts in order to curb expenditure, except critical posts or those funded by conditional grants.

- On the technical side, excess electricity losses have been identified and corrective action is being taken to remedy the situation by the Development of the Consumer Loss Analysis programme(CLA). This programme was specifically written to identify the electricity losses due to technical issues, theft of electricity, illegal connections, metered installations and correct the electricity billing cycle.

43. Events after the reporting date

During October 2016 the municipality received a letter from the National Treasury declining the application for roll over of unspent grants for Municipal Infrastructural Grant and Intergrated National Electrification Programme, in terms of section 22(2) of the 2015 Divison of Revenue Act

44. Unauthorised expenditure

	2016 R	2015 R
Other Expenditure - Landfill site	4 413 659	1 560 632
Depreciation and amortisation	31 572 219	31 149 284
Construction of Mpophomeni Nodal Development Road P390	-	4 271 089
Mpophomeni ROads and Rehab: upgrading Roads in Mpophomeni	-	983 935
Debt impairment	3 890 611	1 747 400
	39 876 489	**39 712 340**

The expenditure above has been identified as unauthorised expenditure,however included in the above unauthorised amount is the depreciation and debt impairment amounts which are non-cash items.

	2016 R	2015 R

45. Fruitless and wasteful expenditure

Balance brought forward	825 024	825 024
Interest and penalty on late payment of VAT	-	1 319 266
Interest on late payment of Eskom	19 728	6 965
Interest on late payment of other suppliers	25 847	1 826
Amounts condoned by Council	(45 575)	(1 328 057)
	825 024	**825 024**

46. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

Suppliers in service of the state
The municipality procured credit control software from Tevtal Technology cc. The member of this entity has disclosed that his spouse is in the service of the state.

The municipality procured Concrete T piece signs for street signs from Rosedale precast fencing. The member of this entity is in the employment of KZN: Department of Health.

The municipality procured entertainment for uMngeni prayer meeting event from Kamavuso Verse Entertainment. The member of this entity is in the employment of South African Broadcasting Corporation.

47. Irregular expenditure

Balance brought forward	26 367 552	17 979 216
Sabinet online and on fire	-	152 339
Supplier declared-thins into	-	32 000
EPS contract	-	4 304 187
Khoskhu Trading CC	-	2 450
ELCO asphalters	-	3 770 965
Amounts condoned	-	11 250
City lodge and Adams booksellers	-	8 524
Airbrakes	-	106 621
Siyabonga Mpungose	87 300	-
Sukile Trading t/a Think Big Big House	195 900	-
Shaz's Catering	7 500	-
AT and DT Trading CC	5 980	-
Turning Point Consultants	55 625	-
Zithembe Trading and Projects	93 503	-
Khabahle Creations (Pty) Ltd	85 250	-
Injabulo kaMandla	82 300	-
Outflare Solutions	191 700	-
Garden Court Hotel Umhlanga	26 836	-
Sabinet Online Ltd	14 899	-
Working On fire	244 120	-
Lasercom	146 650	-
MP Brothers	5 300	-
Magoqaza Trading	8 000	-
Alex Mthiyane	30 000	-
	27 648 415	**26 367 552**

Notes to the Annual Financial Statements

	2016 R	2015 R

48. SCM deviations

In terms of regulation 36 of the Municipal Supply Chain Management Regulations, deviations from, and ratification of minor breaches of the procurement process have to be approved by the accounting officer and noted by the Council.

The following deviations were approved by the accounting officer and sent to Council for noting.

Section 36 deviations		
Deviations for the year	3 468 151	2 225 435

Notes to the Annual Financial Statements

	2016	2015
	R	R

49. Actual operating expenditure versus budgeted operating expenditure

Material differences between budget and actual amounts

Explanations for variances greater than 10% and more than R 1 million noted in the Statement of Comparison of Budget and Actual are as follows:

Commentary on Statement of Financial Performance

Revenue
49.1 Service charges- electricity

The variance is attributed to the electricity losses due to theft, through illegal connections. The municipality has determined that the estimated loss is R 38 million, refer to note 27. The municipality is currently trying to address the losses via the stop electricity theft project.

49.2 Other income

The municipality accounts for income forgone from electricity and refuse, as part of the other income. This is income is not actually received from the consumers, but is included for budgets purposes. This amount has resulted in a variance between the actual and budget amount

49.3 Interest received- investments
This is as a result of delays in project implementation since all Municipal grants were cashed back - the municipality earned more interest on those investments.

49.4 Rates

The positive variance in Rates is as a result of new General Valuation Roll which came into effect on the 01 July 2015, with high values in the properties and also many new developments taking place around Howick

49.5 Property rates- penalties imposed

This is a result of ratepayers who are not paying in time and in February the Municipality charges 10% on all outstanding surchages.

49.6 Grants and Subsidies

The difference is as a result of the the Unspent grants.

49.7 Fine
The decrease in traffic fines is as a result of non-compliance of officials.

Expenditure

49.8 **Personnel**
The variance is due to unfilled vacant posts.

49.9 **Depreciation**
Infrastructure depreciation was under budgeted for, which has resulted in a variance between budgeted and actual amounts.

49.10 Finance Costs

The Municipality has been adhering to S65 of the MFMA - paying its creditors within 30 days.

	2016 R	2015 R

49. Actual operating expenditure versus budgeted operating expenditure (continued)

49.11 Debt impairment
In the current year the municipality has accounted for traffic fines in terms of revised IGRAP 1. Debt impairment includes calculation of traffic fines considered impaired by the Municipality.Council approved 13.4 million debt write off consumer accounts which has resulted in a variance between actual and budget.

49.12 Repairs and Maintenance
In the previous financial year, the municipality appointed a service provider to assist with road maintenance (fixing pot holes). The municipality budgeted a similar amount for pot hole road maintenance which was not fully utilised in the current financial year. This has caused the variance between the budgeted and actual amount reported.

49.13 Bulk Purchases

The municipality is in the process of "a stop electricity theft project" . The project focused on solving root causes of electricity theft e.g. illegal connections, tempering of prepaid and conventional metre systems.The corrective interventions have had a direct impact on the purchasing levels of bulk electricity. The municipality also instructed the appointed service provider for electricity services to do hard disconnection for households with long over due accounts.This is also had an impact on the purchasing levels of bulk electricity.

49.14 Grants and subsidies paid
The municipality has noted unspent grant of an operating nature. Reasons for understanding are as follows:

a) Intergrated National Electrification Programme Grant - This unspent grant will be paid back to National Treasury, as per Note 45 above.

49.15 General Expenses
All the requisitions of goods and services were approved by Interim Finance Committee hence there is a saving.

50. Additional Disclosure in terms of Municipal Finance Management Act

	2016 R	2015 R
Audit fees		
Opening balance	-	559 327
Current years Audit fee	1 228 994	570 714
Previous Years Audi Fee	570 714	-
Amount Paid - current Year	(1 228 994)	(1 130 041)
Amount Paid - previous years	(570 714)	-
Amount Paid - Current Year		
Heading		
	-	-

	2016 R	2015 R
PAYE and UIF		
Current year payroll deductions	13 517 569	10 316 083
Amount Paid - current Year	(13 517 569)	(10 316 083)
	-	-

	2016 R	2015 R
PENSION AND MEDICAL AID		
Current year payroll deductions	24 591 190	21 608 970
Amount Paid - current year	(24 591 190)	(21 608 970)
	-	-

There were no amounts due from Councillors and staff at as the end of the year.

51. Prior period adjustment

- The above issues have been adjusted in the financial statements for the prior year and the effect is as follows:

Notes to the Annual Financial Statements

	2016 R	2015 R
51. Prior period adjustment (continued)		
Adjustment to 2014/2015 Surplus		
Decrease in Intangible assets	-	(334 156)
Decrease in Accumulated surplus	-	24 690
Decrease in Accumulated Depreciation: Intangable	-	309 466
Increase in intangable Assets	-	43 548
Increase in Accumulated Surplus	-	(43 548)
Increase in Acc Depreciation : Intangable Assets	-	(11 167)
Decrease in Accumulated Surplus	-	11 167
Heading		
	-	-

In-kind benefits:

The Mayor is employed on a full-time basis, and is provided with an office and secretarial support at the cost of the Council.

The Mayor has the use of Council owned vehicles for official duties.

The Mayor has two full-time bodyguards.

Councillor benefits:
All Councillors received a Samsung tablet in the current financial year. This benenfit is not included in the remuneration noted above.